

[Loan No. 0010139946-109]

AFTER RECORDING RETURN TO:

Washington Mutual Bank
956 N.W. Bond Street
Bend, Oregon 97709

Attention: Commercial Loan Department

State of Oregon, County of Klamath
Recorded 11/14/2002 8:32 a. m.
Vol M02, Pg 65914-65922
Linda Smith, County Clerk
Fee \$ 61.00 # of Pgs 9

MEMORANDUM OF LOAN MODIFICATION, CONSOLIDATION AND EXTENSION AGREEMENT

Grantor/Borrower: **SCOTT L. RUNELS and MARGIE B. RUNELS**
Grantee/Lender: **WASHINGTON MUTUAL BANK, a Washington corporation**

THIS AGREEMENT is made as of the 18th day of October, 2002, between SCOTT L. RUNELS and MARGIE B. RUNELS (collectively "Borrower") and WASHINGTON MUTUAL BANK, a Washington corporation ("Lender").

RECITALS

A. As of the date hereof, Borrower is indebted to Lender pursuant to the following promissory notes (each an "Original Note," and collectively the "Original Notes"):

1. that certain promissory note dated April 12, 2001, in the original principal amount of \$565,500.00 (Loan No. 0010139946-59);
2. that certain promissory note dated November 29, 2000, in the original principal amount of \$157,500.00 (Loan No. 0010139946-34);
3. that certain promissory note dated June 12, 2000, in the original principal amount of \$270,000.00 (Loan No. 0010139946-42);
4. that certain promissory note dated April 12, 2001, in the original principal amount of \$127,500.00 (Loan No. 0010139946-67);
5. that certain promissory note dated April 12, 2001, in the original principal amount of \$225,000.00 (Loan No. 0010139946-75);
6. that certain promissory note dated October 12, 2001, in the original principal amount of \$27,500.00 (Loan No. 0010139946-83); and
7. that certain promissory note dated March 14, 2002, in the original principal amount of \$63,000.00 (Loan No. 0010139946-91).

As of the date hereof, the total outstanding principal balance on the Original Notes equals ONE MILLION TWO HUNDRED FORTY THOUSAND SEVEN HUNDRED TWENTY-SIX AND 71/100 DOLLARS (\$1,240,726.71) (the "Indebtedness").

B. The Loans identified in Recital A, above, are secured by various Uniform Commercial Code Financing Statements, together with the following (collectively, the "Security Documents"):

0010139946-59

1. Commercial Security Agreement dated June 12, 2000;
2. Agricultural Security Agreement dated June 12, 2000;
3. Assignment of Rents dated March 24, 2000;
4. Line of Credit Deed of Trust dated March 24, 2000, as modified by that certain Modification of Deed of Trust dated March 12, 2002; the said line of credit deed of trust was recorded in Klamath County, Oregon at Volume M00, Page 14366, and in Lake County, Oregon at Book 119, Page 365, (the real property covered by the said Line of Credit Deed of Trust is described hereinafter in Exhibit K);

0010139946-34

5. Commercial Security Agreement dated November 29, 2000;

6. Assignment of Rents dated November 29, 2000;

7. Deed of Trust dated November 29, 2000, recorded in Lake County, Oregon at Book 121, Page 531; (the real property covered by the said Deed of Trust is described hereinafter in Exhibit K);

0010139946-42

8. Commercial Security Agreement dated June 12, 2000;

9. Agricultural Security Agreement dated June 12, 2000;

10. Deed of Trust dated June 12, 2000, and recorded in Klamath County, Oregon at Volume M00, Page 22130, and in Lake County, Oregon at Book 120, Page 71; (the real property covered by the said Deed of Trust is described hereinafter in Exhibit K);

0010139946-67

11. Agricultural Security Agreement dated April 12, 2001;

12. Assignment of Rents dated April 12, 2001;

13. Line of Credit Deed of Trust dated April 12, 2001, as modified by that certain Modification of Deed of Trust dated March 14, 2002; which line of credit deed of trust was recorded in Klamath County, Oregon at Volume M01, Page 17484, and in Lake County, Oregon at Book 123, Page 149; (the real property covered by the said Line of Credit Deed of Trust is described hereinafter in Exhibit K);

0010139946-75

14. Commercial Security Agreement dated June 12, 2000;

15. Agricultural Security Agreement dated June 12, 2000;

16. Line of Credit Deed of Trust dated June 12, 2000, as modified by that certain Modification of Deed of Trust dated March 14, 2002, which line of credit deed of trust was recorded in Klamath County, Oregon at Volume M00, Page 22123, and in Lake County, Oregon at Book 120, Page 64; (the real property covered by the said Line of Credit Deed of Trust is described hereinafter in Exhibit K);

0010139946-83

17. Commercial Security Agreement dated October 12, 2001;

0010139946-91

18. Agricultural Security Agreement dated March 14, 2002;

19. Deed of Trust dated March 14, 2002, recorded Lake County, Oregon at Book 127, Page 712; (the real property covered by the said Line of Credit Deed of Trust is described hereinafter in Exhibit K).

C. The parties hereto now desire to enter into this Loan Modification, Consolidation and Extension Agreement (this "Agreement") to provide for the consolidation of the Original Notes into a single new replacement obligation (the "Note"), to be secured by the Security Documents, the giving of additional collateral to secure the said Note, and generally to provide for the repayment in full of Borrower's Indebtedness to Lender, as well as the additional costs itemized herein. Additionally, this Agreement shall provide for a release of claims by Borrower.

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing recitals and the mutual covenants, conditions and promises on the part of each party to be kept and performed, the parties hereby agree as follows:

1. Affirmation of Indebtedness and Security.

Borrower hereby acknowledges the Indebtedness and affirms that the Security Documents identified in Recital B, above, were duly executed, delivered and (as applicable) recorded, and remain in full force and effect.

2. Consolidation of Indebtedness.

The parties hereby agree that the Indebtedness shall be consolidated, and that as consolidated the Indebtedness shall be documented by a promissory note (the "Note") of even date herewith, in the original principal amount of ONE MILLION TWO HUNDRED FORTY THOUSAND SEVEN HUNDRED TWENTY-SIX and 71/100 DOLLARS (\$1,240,726.71), and that the Note shall replace and supersede the

Original Notes in their entirety. A copy of the Note is attached hereto as Exhibit A and incorporated herein as though set forth in full.

3. Security for the Note.

Repayment of the Note shall be secured by the Security Documents together with each of the following additional documents (which shall, with the Security Documents heretofor identified, hereafter collectively be referred to as the "Security Documents") to be executed and delivered by Borrower to Lender in connection with this Agreement:

- a. Trust Deed, Security Agreement, Assignment of Leases and Rents, and Fixture Filing, a copy of which is attached hereto as Exhibit B, and incorporated herein as though set forth in full;
- b. Commercial Security Agreement (Oregon), a copy of which is attached hereto as Exhibit C, and incorporated herein as though set forth in full;
- c. Commercial Security Agreement (California), a copy of which is attached hereto as Exhibit D, and incorporated herein as though set forth in full;
- d. Agricultural Security Agreement (California), a copy of which is attached hereto as Exhibit E, and incorporated herein as though set forth in full;
- e. Assignment of Rents (Oregon), a copy of which is attached hereto as Exhibit F, and incorporated herein as though set forth in full;
- f. Assignment of Rents (California), a copy of which is attached hereto as Exhibit G, and incorporated herein as though set forth in full;
- g. Landlord's Consent, a copy of which is attached hereto as Exhibit H, and incorporated herein as though set forth in full;
- h. Uniform Commercial Code Financing Statement UCC-1 and EFS (Oregon), a copy of which is attached hereto as Exhibit I, and incorporated herein as though set forth in full; and
- i. Uniform Commercial Code Financing Statement UCC-1 (California), a copy of which is attached hereto as Exhibit J, and incorporated herein as though set forth in full.

4. Modifications to the Deeds of Trust.

Each of the deeds of trust identified in Recital B, above, is hereby modified so as to:

- a. expressly recite that it secures the repayment of the Note, (as that term is defined in this Agreement), and to assure Borrower's repayment of the Indebtedness represented by the Note;
- b. amend the maturity date thereof to be July 15, 2003; and
- c. provide that any default by Borrower of the terms and conditions of this Agreement shall constitute a default thereunder and pursuant to that certain deed of trust identified in Section 3.a., above.

5. Modifications to the Assignment of Rents, the Commercial Security Agreements and the Agricultural Security Agreements.

Each of the commercial security agreements, agricultural security agreements, and assignments of rents identified in Recital B, above, is hereby modified so as to:

- a. expressly recite that it secures the repayment of the Note, (as that term is defined in this Agreement), and to assure Borrower's repayment of the Indebtedness represented by the Note;
- b. amend the maturity date thereof to be July 15, 2003; and
- c. provide that any default by Borrower of the terms and conditions of this Agreement shall constitute a default thereunder and pursuant to that Commercial Security Agreement, Agricultural Security Agreement and Assignment of Rents identified in Sections 3.b., 3.c. and 3.d., above.

6. Release of Claims.

As additional consideration to Lender for entering into this Agreement, Borrower does for himself or herself as the case may be, and on behalf of his/her successors and assigns, does hereby release, acquit and forever discharge Lender, all of Lender's predecessors in interest, and all of Lender's past and present officers, directors, attorneys, affiliates, employees and agents, of and from any and all claims, demands, obligations, liabilities, indebtedness, breaches of contract, breaches of duty or of any relationship, acts, omissions, misfeasance, malfeasance, causes of action, defenses, offsets, debts, sums of money, accounts, compensation, contracts, controversies, promises, damages, costs, losses and expenses, of

every type, kind, nature, description or character, whether known or unknown, suspected or unsuspected, liquidated or unliquidated, each as though fully set forth herein at length (each, a "Released Claim" and collectively, the "Released Claims"), that Borrower now has or may acquire as of the later of: (i) the date this Agreement becomes effective; or (ii) the date that this Agreement has been fully executed and delivered to Lender (hereafter, the "Release Date"), including without limitation, those Released Claims in any way arising out of, connected with or related to any and all prior credit accommodations, if any, provided by Lender, or any of the Bank's predecessors in interest, to Borrower, and any agreements, notes or documents of any kind related thereto, or the transactions contemplated thereby or hereby, or any other agreement or document referred to herein or therein.

Borrower hereby acknowledges, represents and warrants to Lender that Borrower agrees to assume the risk of any and all unknown, unanticipated or misunderstood defenses and Released Claims which are released by the provisions hereof in favor of Lender, and waives and releases all rights and benefits which Borrower might otherwise have under any state or local laws or statutes with regard to the release of such unknown, unanticipated or misunderstood defenses and Released Claims.

Borrower acknowledges that Borrower has read each of the provisions of this Agreement and this Section 6, and had the opportunity to review the same with legal counsel. Borrower fully understands that this Section 6 constitutes a general release, and that it has important legal consequences. Borrower specifically acknowledges and agrees that: (1) none of the provisions of this Section 6 shall be construed as or constitute an admission of any liability on the part of Lender; (ii) the provisions of this Section 6 shall constitute an absolute bar to any Released Claim of any kind, whether any such Released Claim is based on contract, tort, warranty, mistake or any other theory, whether legal, statutory or equitable; and (iii) any attempt to assert a Released Claim barred by the provisions of this Section 6 shall subject the asserting party to the provisions of applicable law setting forth the remedies for the bringing of groundless, frivolous or baseless claims or causes of action.

7. Reaffirmation of Obligations.

Borrower hereby ratifies and reaffirms each and every one of its obligations under the Note and the Security Documents (as hereby modified), including, but not limited to the obligation of Borrower to pay the Indebtedness evidenced by the Note and secured by the Security Documents.

8. Obligation to List Property and Diligently Pursue its Sale.

Borrower shall immediately list for sale with a reputable real estate broker the real property described in the Note, and take all actions reasonably necessary to promptly market and sell said real property at its fair market value.

9. Encumbrances.

Borrower warrants and represents to Lender that the only encumbrances and other matters of record affecting the real property encumbered by the various deeds of trust and other Security Documents identified in this Agreement, are those, which were of record on the dates the said deeds of trust and other Security Documents were originally recorded against such real property.

10. Expenses.

All fees, charges and expenses associated with the transactions contemplated by this Agreement, including but not limited to recording fees, title insurance premiums, escrow fees, appraisal and inspection costs and attorneys' fees shall be paid for in their entirety by Borrower. Lender shall incur no expense in connection with the transactions contemplated by this Agreement.

11. Attorneys' Fees and Legal Expenses.

In the event of any default under the Note, the Security Documents, or in the event that any dispute arises relating to the interpretation, enforcement or performance of this Agreement, Lender shall be entitled to collect from Borrower on demand all fees and expenses incurred in connection therewith, including but not limited to the fees of its attorneys, accountants, appraisers, environmental inspectors, consultants, expert witnesses, arbitrators, mediators and court reporters. Without limiting the generality of the foregoing, Borrower shall pay all such costs and expenses incurred in connection with: (a) arbitration or other alternative dispute resolution proceedings, trial court actions and appeals; (b) bankruptcy or other insolvency proceedings of Borrower, any guarantor or other party liable for any of the obligations of the Note or the Security Documents or any party having any interest in any security for any of those obligations; (c) judicial or nonjudicial foreclosure on, or appointment of a receiver for, any property securing the Note; (d) post-judgment collection proceedings; (e) all claims, counterclaims, cross-claims and defenses asserted in any of the foregoing whether or not they arise out of or are related to the Note, or any security therefor; (f) all preparation for any of the foregoing; and (g) all settlement negotiations with respect to any of the foregoing.

12. Final and Complete Expression.

This Agreement, and the various other documents executed in connection herewith, constitutes the final and complete expression of the parties with respect to the transactions contemplated herein and may not

be modified, amended, altered or superseded except by an agreement in writing signed by all parties hereto.

13. Captions.

The headings to the various sections of this Agreement have been inserted for convenience of reference only and do not modify, amend, alter or supersede the express provisions hereof.

14. No Joint Venture.

Nothing contained herein or in any of the documents identified herein shall be construed as creating a partnership or joint venture between or among Borrower and Lender or between Lender and any other party, or cause Lender to be responsible in any way for the debts or obligations of Borrower or any other party, it being the express intent of the parties that the relationship between Borrower and Lender is, and at all times shall remain, that of a borrower and lender.

15. Third-Party Beneficiaries.

Nothing contained herein or in any of the documents identified herein shall be construed as creating a third-party beneficiary relationship between Borrower, Lender and any other party.

16. Severability.

If any provision of this Agreement or the application thereof to any person or circumstance shall to any extent be invalid or unenforceable, the remainder of this Agreement or the application of such provision to persons or circumstances other than those as to which it is invalid or unenforceable shall not be affected thereby and each provision of this Agreement shall be valid and be enforced to the fullest extent permitted by law.

17. Further Assurances.

Borrower agrees to execute such other instruments and provide Lender with such further assurances as Lender, in its reasonable discretion, deems necessary to protect its security or to more fully carry out the intents and purposes of this Agreement.

18. Conflicts Between Documents.

In the event of a conflict in the terms and conditions of any of the documents identified in this Agreement and this Agreement, the terms and conditions of this Agreement shall prevail.

19. Counterparts.

This Agreement may be executed in a number of identical counterparts. If so executed, each of such counterparts shall collectively constitute one agreement.

20. Time of Essence.

Time is of the essence under this Agreement and in the performance of every term, covenant and obligation contained herein.

21. Binding Effect.

All agreements, covenants, conditions and provisions of this Agreement shall be binding upon and inure to the benefit of the successors and assigns of each of the parties hereto.

22. Governing Law.

This Agreement is made with reference to and is to be construed in accordance with the laws of the state of Oregon.

23. Miscellaneous.

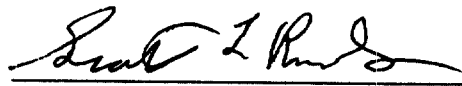
Except as hereby modified, all of the terms, covenants and conditions of the Security Documents remain in full force and effect and unmodified. Nothing herein shall be deemed to affect or modify the priority of the Deeds of Trust. All references to the Note and the Deeds of Trust in any document shall be deemed to mean the Note and the deeds of trust as hereby modified.

DATED as of the day and year first above written.

UNDER OREGON LAW, MOST AGREEMENTS, PROMISES AND COMMITMENTS MADE BY WASHINGTON MUTUAL BANK AFTER OCTOBER 3, 1989 CONCERNING LOANS AND OTHER CREDIT EXTENSIONS WHICH ARE NOT FOR PERSONAL, FAMILY OR HOUSEHOLD PURPOSES OR SECURED SOLELY BY THE BORROWER'S RESIDENCE MUST BE IN WRITING, EXPRESS CONSIDERATION AND BE SIGNED BY WASHINGTON MUTUAL BANK TO BE ENFORCEABLE.

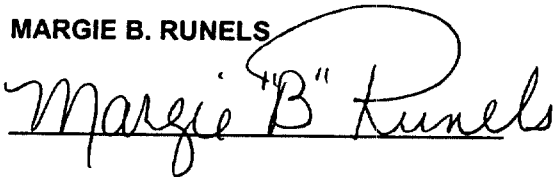
BORROWER:

SCOTT L. RUNELS



BORROWER:

MARGIE B. RUNELS



LENDER:

WASHINGTON MUTUAL BANK, a Washington corporation

By 
_____ John G. Clark, Vice President

STATE OF OREGON

COUNTY OF

Deschutes

ss.

65920

This instrument was acknowledged before me on November 6, 2002 by SCOTT L. RUNELS.

Dated this 6th day of November, 2002.



Carol Callahan

(Signature of Notary)

CAROL CALLAHAN

(Legibly Print or Stamp Name of Notary)

Notary public in and for the state of Oregon, residing at Bend, Or

My appointment expires 7-19-04

STATE OF OREGON

COUNTY OF

Deschutes

ss.

This instrument was acknowledged before me on November 6, 2002 by MARGIE B. RUNELS.

Dated this 6th day of November, 2002.



Carol Callahan

(Signature of Notary)

CAROL CALLAHAN

(Legibly Print or Stamp Name of Notary)

Notary public in and for the state of Oregon, residing at Bend, Or

My appointment expires 7-19-04

STATE OF OREGON

COUNTY OF

Deschutes

ss.

This instrument was acknowledged before me on November 6, 2002 by JOHN G. CLARK as Vice President of WASHINGTON MUTUAL BANK.

Dated this 6th day of November, 2002.



Carol Callahan

(Signature of Notary)

CAROL CALLAHAN

(Legibly Print or Stamp Name of Notary)

Notary public in and for the state of Oregon, residing at Bend Or

My appointment expires 7-19-04

My appointment expires 7-19-04

Exhibit A	Promissory Note
Exhibit B	Trust Deed, Security Agreement, Assignment of Leases & Rents and Fixture Filing
EXHIBIT C	Commercial Security Agreement (Oregon)
EXHIBIT D	Commercial Security Agreement (California)
EXHIBIT E	Agricultural Security Agreement (California)
EXHIBIT F	Assignment of Rents (Oregon)
EXHIBIT G	Assignment of Rents (California)
EXHIBIT H	Landlord's Consent
EXHIBIT I	UCC (Assignment of Rents), UCC (Livestock) & EFS (Oregon)
EXHIBIT J	UCC (Assignment of Rents) & UCC (Livestock) (California)
EXHIBIT K	Legal Descriptions of Deeds of Trust (see next page)

Loan 0010139946-59

Line of Credit Deed of Trust dated March 24, 2000, as modified by that certain Modification of Deed of Trust dated March 12, 2002; the said line of credit deed of trust was recorded in Klamath County, Oregon at Volume M00, Page 14366, and in Lake County, Oregon at Book 119, Page 365; (the real property covered by the said Line of Credit Deed of Trust is described hereinafter under KLAMATH COUNTY: PARCELS 1 through 6 and LAKE COUNTY: PARCELS 1 through 3.)

Loan 0010139946-34

Deed of Trust dated November 29, 2000, recorded in Lake County, Oregon at Book 121, Page 531; (the real property covered by said Deed of Trust is described hereinafter under LAKE COUNTY: PARCEL 4.)

Loan 0010139946-42

Deed of Trust dated June 12, 2000, and recorded in Klamath County, Oregon at Volume M00, Page 22130, and in Lake County, Oregon at Book 120, Page 71; (the real property covered by the said Deed of Trust is described hereinafter under KLAMATH COUNTY: PARCELS 1 through 6 and LAKE COUNTY: PARCELS 1 through 3.)

Loan 0010139946-67

Line of Credit Deed of Trust dated April 12, 2001, as modified by that certain Modification of Deed of Trust dated March 14, 2002; which line of credit deed of trust was recorded in Klamath County, Oregon at Volume M01, Page 17484, and in Lake County, Oregon at Book 123, Page 149; (the real property covered by the said Line of Credit Deed of Trust is described hereinafter under KLAMATH COUNTY: PARCELS 1 through 6 and LAKE COUNTY: PARCELS 1 through 3.)

Loan 0010139946-75

Line of Credit Deed of Trust dated June 12, 2000, as modified by that certain Modification of Deed of Trust dated March 14, 2002, which line of credit deed of trust was recorded in Klamath County, Oregon at Volume M00, Page 22123, and in Lake County, Oregon at Book 120, Page 64; (the real property covered by the said Line of Credit Deed of Trust is described hereinafter under KLAMATH COUNTY: PARCELS 1 through 6 and LAKE COUNTY: PARCELS 1 through 3.)

Loan 0010139946-91

Deed of Trust dated March 14, 2002, recorded Lake County, Oregon at Book 127, Page 712; (the real property covered by the said Line of Credit Deed of Trust is described hereinafter under LAKE COUNTY: PARCELS 1 through 4.)

LAKE COUNTY:

PARCEL 1: The SE ¼ and the E ½ of the SW ¼ of Section 32 in Township 27 South, Range 16 East of the Willamette Meridian in Lake County, Oregon.

PARCEL 2: Government Lots 1, 2 and 3 and the S ½ of the NE ¼ and the N ½ of the SE ¼ and the SW ¼ of the SE ¼ of Section 5 in Township 28 South, Range 16 East of the Willamette Meridian in Lake County, Oregon.

PARCEL 3: The SE ¼ of the NW ¼ and the SW ¼ of Section 5 in Township 28 South, Range 16 East of the Willamette Meridian in Lake County, Oregon.

PARCEL 4: The SE ¼ of the NE ¼ and the E ½ of the SW ¼ of the NE ¼ and the SE ¼ of the NW ¼ and the S ½ all in Section 3 in Township 28 South, Range 16 East of the Willamette Meridian in Lake County, Oregon.

KLAMATH COUNTY:

PARCEL 1: The S ½ SE ¼ NW ¼ of Section 31, Township 30 South, Range 8 East of the Willamette Meridian, Klamath County, Oregon, lying Easterly of the Southern Pacific Railroad right of way.

PARCEL 2: The S ½ N ½ SE ¼ NW ¼ of Section 31, Township 30 South, Range 8 East of the Willamette Meridian, Klamath County, Oregon, lying Easterly of the Southern Pacific Railroad right of way.

PARCEL 3: All that portion of the E ½ SW ¼ of Section 31, Township 30 South, Range 8 East of the Willamette Meridian, lying Easterly of the Southern Pacific Railroad, Klamath County, Oregon.

PARCEL 4: All that portion of the N ½ N ½ SE ¼ NW ¼ of Section 31, Township 30 South, Range 8 East of the Willamette Meridian, lying Easterly of the Southern Pacific Railroad right of way, Klamath County, Oregon.

PARCEL 5: NW ¼ of the SE ¼ and government Lots 5, 6, 7 and 8 in Section 31, Township 30 South, Range 8 East of the Willamette Meridian, Klamath County, Oregon.

PARCEL 6: That portion of the S ½ of Section 19, lying Southerly of the Silver Lake Road, and EXCEPTING THEREFROM that portion lying within the railroad right of way, in Township 31 South, Range 8 East of the Willamette Meridian, Klamath County, Oregon.